STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 7270

Joint Petition of Verizon New England Inc.,)
d/b/a Verizon Vermont, certain affiliates)
thereof, and FairPoint Communications, Inc. for)
approval of an asset transfer, acquisition of)
control by merger and associated transactions)

Order entered: 4/23/2009

ORDER MODIFYING CONDITIONS RE: DEBT REPAYMENT

INTRODUCTION

On March 26, 2009, the Vermont Public Service Board ("Board") issued an Order modifying Condition 35 of the Board's February 15, 2008, Order ("Order") approving the acquisition of Verizon New England Inc., d/b/a Verizon Vermont ("Verizon") by Northern New England Telephone Operations LLC, and Telephone Operating Company of Vermont LLC, d/b/a FairPoint Communications (collectively, "FairPoint"). The March 26 Order also modified Paragraph 30 of Attachment 1 to the Certificates of Public Good ("CPG") that were issued contemporaneously with the February 15, 2008, Order. (Paragraph 30 of Attachment 1 is identical to Condition 35 of the Order.)

This modification was in response to a request by FairPoint asking that we authorize FairPoint to delay the first payment of the principal on the outstanding Term Loan until the second quarter of 2009 (as required by that loan) rather than in the first quarter (as specified in the conditions in the 2008 Order). We granted this request, finding that it would help FairPoint's liquidity, was consistent with the Term Loan and would help offset higher costs than FairPoint had previously anticipated. The Order modified Condition 35 (and Paragraph 30 of Attachment 1 to the CPGs) to read as follows:

> Beginning no later than the second quarter of 2009, FairPoint shall pay the higher of $45,000,000 annually, or 90% of annual Free Cash Flow, to be applied equally in each fiscal quarter, towards the permanent reduction of the principal amount of the Term Loan(s). Free Cash Flow is defined as the cash flow remaining after all operating expenses, interest payments, tax payments, capital

> expenditures, dividends and other routine cash expenditures have occurred. (For the first year of operations, this calculation would include all adjustments permitted by the current and the new loan documents.)

On March 27, 2009, FairPoint filed a motion asking for what it characterized as a correction to the Modification Order. FairPoint requests that we change the March 26, 2009, Order to allow FairPoint to direct payments to reduce principal towards any outstanding debt, not simply the Term Loan. FairPoint states that this is consistent with a proposed condition recommended previously by the Vermont Department of Public Service ("Department"). FairPoint also notes that the Maine Public Utilities Commission ("PUC") on March 31, 2009, modified an equivalent condition, so that FairPoint could direct principal repayments to debt obligations generally, rather than the Term Loan. Significantly, the Maine PUC did not extend the time for making the first payment, so that it remained due at the end of the first quarter.[1]

The Department supports FairPoint's request. No other party commented.

Discussion

We conclude that it is reasonable to authorize FairPoint to direct debt principal repayments to any outstanding debt rather than solely the Term Loan. This will enable FairPoint to reduce the more expensive debt first, thus helping it over the long term. We note, however, that this is not a correction to the March 27 Order as FairPoint suggests. In that Order, we granted precisely the relief that FairPoint requested: a delay in the time for making the first payment of principal on the Term Loan. The present request asks for different relief than FairPoint had previously sought. We grant that relief not to correct any error in the previous Order, but because it is appropriate to allow FairPoint to direct its principal repayments in the most cost-effective manner.

We modify Condition 35 of the Order and Paragraph 30 of Attachment 1 of the CPGs to read as follows:

> Beginning no later than the second quarter of 2009, FairPoint shall pay the higher of $45,000,000 annually, or 90% of annual Free Cash Flow, to be applied

1. At the Workshop on April 15, 2009, FairPoint stated that it had made the first payment towards principal in the first quarter, but the payment was not made to the Term Loan, but rather to other, more expensive, debt.

equally in each fiscal quarter, towards the permanent reduction of the principal amount of outstanding debt. Free Cash Flow is defined as the cash flow remaining after all operating expenses, interest payments, tax payments, capital expenditures, dividends and other routine cash expenditures have occurred. (For the first year of operations, this calculation would include all adjustments permitted by the current and the new loan documents.)

SO ORDERED.

Dated at Montpelier, Vermont, this 23rd day of April, 2009.

s/James Volz)	PUBLIC SERVICE
s/David C. Coen)	BOARD
s/John D. Burke)	OF VERMONT

OFFICE OF THE CLERK

FILED: April 23, 2009

ATTEST: s/Judith C. Whitney
Deputy Clerk of the Board

NOTICE TO READERS: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: psb.clerk@state.vt.us)

Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.